ENT-20 INDEX THE UNEMPLOYMENT INSURANCE TAXABLE WAGE BASE

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1987	1988	1989	1990	1991	
Addition to CBO Baseline	--	0.3	0.7	1.0	0.8	2.8

NOTE: These estimates assume that the change is implemented in January 1988, to allow time for changes in state laws. Further, some states with Unemployment Insurance programs in good financial condition are assumed to offset increases in the tax base with reductions in their tax rates.

The joint federal/state Unemployment Insurance (UI) program is financed primarily through federal and state payroll taxes on employers. The federal UI taxable wage base--which also serves as the minimum base for state UI taxes--is currently $7,000 per worker and has been increased only three times from its level of $3,000 in 1940. The proportion of total wages subject to the federal tax has thus fallen from over 90 percent in 1940 to about 40 percent now. In contrast, UI benefits tend to increase with nominal wages, because benefits are based in part on prior earnings and because many states index their maximum weekly benefit to average weekly wages. Indexing the federal UI wage base by linking it to average earnings in the national economy--as is done with the Social Security base--would increase revenues, and thus reduce the federal budget deficit, by about $2.8 billion over the 1987-1991 period. 1/

This option could help to stabilize the long-term financial position of the UI system by allowing revenue increases to follow a path similar to benefit gains. Raising the minimum state tax base could also allow for reductions in the tax rates of some states, which have risen from an average of 1.3 percent of taxable wages in 1970 to about 3.1 percent in 1985. Finally, by concentrating the tax increase on the wages of workers now earning more than the current tax base, this change would make the UI tax somewhat more progressive.

1. See CBO, *Promoting Employment and Maintaining Incomes with Unemployment* (March 1985), p. 54.

Because this change could result in higher labor costs for employers, however, it might adversely affect employment levels. In addition, mandating increases in minimum wage bases for state UI taxes would limit somewhat the flexibility of states in designing tax systems to finance their UI benefits. Although states in good financial condition could offset the total amount of this change by lowering tax rates, there would be some redistribution of tax payments by different firms.

The Administration's budget would not modify the present Unemployment Insurance taxable wage base.

ENT-21 REDUCE GUARANTEED STUDENT LOAN SUBSIDIES

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
			Require Students to Pay In-School Interest			
Budget Authority	-95	560	970	1,200	1,300	3,950
Outlays	-50	390	870	1,150	1,300	3,650
			Raise Students' Interest Rates After Leaving School			
Budget Authority	--	20	85	150	200	450
Outlays	--	15	65	140	190	400
			Reduce Lenders' Subsidies by One-Half Percentage Point			
Budget Authority	25	70	120	160	200	560
Outlays	15	60	100	150	190	510
			Reduce Default Costs			
Budget Authority	--	25	110	160	180	470
Outlays	--	25	110	160	180	470

NOTE: The savings that would result from implementing all four options jointly would not equal the sum of the separate estimates because the options would interact.

Postsecondary students borrowing money under the Guaranteed Student Loan (GSL) program repay their loans after leaving school at interest rates between 7 percent and 9 percent--well below interest rates for unsecured personal loans. The federal government guarantees the loans, which lending institutions provide, and pays the interest while students are enrolled in school. In addition, during the entire life of the loan, the government pays lenders a variable amount that supplements students' interest payments, guaranteeing lenders a return equal to 3.5 percentage points above the bond equivalent rate for 91-day Treasury bills.

Two main objectives underlie federal support for GSLs: to provide more financial aid to needy students, and to make loans available to students who would encounter difficulties in obtaining private loans because they lack collateral. The first objective suggests that the government would subsidize loan terms for students; the second objective suggests that the government would reduce imperfections in the capital market but would subsidize students much less or not at all. Furthermore, because the federal government both bears the risk of rising interest rates and insures loans against default, the payments provided to lending institutions are probably higher than necessary to induce lenders to provide GSLs to students.

The Congress could reduce federal spending on student loans in several ways. For example, students' subsidies could be reduced by requiring students to pay the interest on loans while in school--the "in-school" interest--or by requiring borrowers to repay their loans at higher interest rates. Alternatively, the yield provided to lenders could be lowered, or default costs could be reduced. These options are discussed below.

Require Students to Pay In-School Interest or Raise Students' Interest Rates After Leaving School. Making students pay between 7 percent and 9 percent interest while they are in school (eliminating the student origination fee and deferring actual payments until the student leaves school) could reduce federal outlays by $3.65 billion between 1987 and 1991. Raising students' interest rates after they leave school to the full interest the government now pays to lenders, but continuing the in-school interest subsidy, could reduce federal spending by $400 million during the 1987-1991 period and by more in future years. Both estimates assume that the options would affect only loans obtained after October 1, 1986, and that the number of borrowers would continue at the level now expected. If some students were to drop out of the program, federal savings would be greater.

Proponents argue that even a 9 percent loan with no payments until students leave school is more than generous enough to enable students to obtain further education, especially for students from middle- and higher-income families. Both options would reduce the subsidy by requiring students to repay larger amounts. Letting students borrow the in-school interest at the time loans are made would give banks a similar yield as now, but borrowers would still not have to make any payments while attending school. Raising interest rates after students leave school would require larger repayments than under current law, but the increase generally would be smaller than if the in-school interest subsidy were eliminated and students borrowed the interest at loan origination.

Opponents of these changes--especially of the option to eliminate the in-school interest subsidy--argue that larger repayment burdens would cause some students to leave school or to choose different institutions. In addition, opponents claim that some lenders might drop out of the program because of somewhat increased servicing costs and complexity, thereby making it more difficult for students to obtain loans. If loan availability declined, however, some colleges and universities might increase their own student aid to offset the reductions in GSLs.

Reduce Lenders' Subsidies. This option would lower the interest supplement paid to lenders while students are in school, when lenders' servicing costs are lowest. Each reduction of one-half of a percentage point in the yield on new loans while students are still in school would lower spending by $510 million during the next five years.

Current GSL subsidies are probably higher than necessary to induce lenders to participate in the GSL program because the federal government bears all risk of rising interest rates and insures the loans against default. Moreover, reducing lenders' subsidies would lower program expenditures while not affecting students' costs. On the other hand, this approach could cause some lenders to stop providing GSLs and thus make loans more difficult for students to obtain. The effect would probably differ across the country, however, depending on the response of local lenders.

Reduce Default Costs. Federal default costs could be controlled in two ways. One option is to enforce more strictly "due diligence" provisions that lenders must now follow when collecting loans. Another option is to restore a previous coinsurance provision that required state guarantee agencies to pay a portion of default costs. These options would lower federal outlays by $470 million during the next five years if implemented jointly and if the coinsurance provision were applied to new loans only.

Under this approach, most lenders and state guarantee agencies would expand their efforts to prevent defaults. Some lenders or state agencies might drop out of the program, however, making loans more difficult to obtain. Alternatively, states might shift some of their default costs to students--most of whom do not default--by increasing the insurance premiums that students pay when obtaining loans.

The Administration's GSL proposal would affect students, lenders, and guarantee agencies. The proposed changes are similar to those discussed here, but the proposal would reduce federal subsidies substantially more than these cutbacks. For example, the Administration would require students to pay the in-school interest, as presented here, and would continue the 5 percent student origination fee.

ENT-22 REDUCE THE SUBSIDY FOR NONPOOR CHILDREN IN CHILD NUTRITION PROGRAMS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	280	300	320	330	350	1,580
Outlays	250	290	310	330	350	1,550

Federal child nutrition programs were developed to improve the health and well-being of children by providing them with nutritious meals. The programs provide cash and commodity assistance to schools, child care centers, and family day care homes that serve meals to children. Although most of the funds are targeted toward low-income children, some of the aid benefits middle- and upper-income children as well. For example, in the National School Lunch program (the largest of the child nutrition programs), most schools receive $1.30 in cash reimbursement for each meal served to children from households with incomes at or below 130 percent of the poverty line; a reduced subsidy of 90 cents for each meal served to children from households with incomes between 130 percent and 185 percent of poverty; and a subsidy of 12.5 cents per meal for children with household incomes above 185 percent of poverty. Schools are also given 12 cents' worth of commodities for each lunch served, regardless of the household income of the child. Comparable reimbursement structures are used in the School Breakfast program and in the child care center portion of the Child Care Feeding program.

Eliminating the cash reimbursement for all meals served to children from households with incomes above 185 percent of the poverty line ($19,703 per year for a family of four in the 1985-1986 school year) would reduce federal expenditures by about $250 million in 1987, and about $1.55 billion over the 1987-1991 period. These estimates assume that all participating schools and child care centers would remain in the program. With lower total subsidies, however, some of these organizations might choose to drop out of the program, especially if few children remained eligible for federal subsidies. A decrease in the number of schools and centers participating would increase federal budgetary savings, as fewer children and organizations would receive subsidies.

Proponents of this change point out that, although most of the federal funds were targeted toward low-income children, 51 percent of the school lunches served in fiscal year 1985 went to children whose family income was above 185 percent of the poverty line. They argue that these children do not need federal subsidies and that the targeting of this assistance would be improved by limiting it to those most in need.

Opponents point out that such a change is likely to result in decreased participation among nonpoor children, as participating schools and centers would probably make up the loss in reimbursements by increasing the price charged to this group. It is not known, however, how many children are likely to drop out of the program. Opponents are concerned about the potential decrease in participation for several reasons. First, they argue that meals qualifying for reimbursement are nutritionally superior to those from alternative sources, and that eliminating subsidies for nonpoor students could result in lower-quality meals for them. Second, they are concerned that if large numbers of nonpoor children drop out of the program, low-income children could become the main recipients of the meals and thus would be identifiable as poor by their peers. Finally, they maintain that because the participation of nonpoor children may help schools and child care centers hold down their overall per-meal preparation and service costs, any decline in the participation of this group could cause these organizations to drop out of the program, thereby denying federally subsidized meals to low-income children.

The Administration's budget includes the proposal described above. In addition, it would eliminate both commodity subsidies for meals served to children with family incomes above 185 percent of poverty and cash and commodity subsidies for such children in the family day home portion of the Child Care Feeding program. These changes would lead to substantially larger savings.

ENT-23 REDUCE AND RETARGET AID FOR DEPENDENT CARE

Savings from CBO Baseline	Annual Savings (billions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Gross Revenue Gain	0.2	1.7	1.9	2.1	2.3	8.2
Outlays a/	-0.1	-0.85	-0.95	-1.05	-1.15	-4.1
Net Savings	0.1	0.85	0.95	1.05	1.15	4.1

a. Negative numbers reflect increased outlays for the SSBG (see text) and assume 100 percent spend-out of additional SSBG budget authority in each year.

Two of the ways in which the federal government provides financial support for dependent care are through the Dependent-Care Tax Credit and the Social Services Block Grant (SSBG). The tax credit permits taxpayers to claim a specified percentage of employment-related expenses for care of children under age 15 and certain other dependents. The credit is granted on a sliding scale--30 percent of up to $4,800 in allowed expenses for taxpayers with adjusted gross incomes (AGI) of $10,000 or less, declining one percentage point for each additional $2,000 of AGI to 20 percent for those with incomes above $28,000. The SSBG funds a wide variety of social services, including day care for children and other dependent people.

Tightening the tax credit and expanding the SSBG--with the stipulation that the additional funds be used for dependent care for low-income families--would both reduce the deficit and expand services for those most in need. The tax credit could be more steeply graduated, declining by one percentage point for each additional $1,000 of AGI over $10,000, phasing out completely for those with an AGI above $39,000. If half of the savings were applied to the grant program, net savings would be $0.1 billion in fiscal year 1987 and $4.1 billion over the 1987-1991 period. The Administration's most recent tax reform proposal would retain the current Dependent-Care Tax Credit, as would the tax reform bill passed by the House of Representatives, H.R. 3838.

This option would help meet the growing need for dependent-care services for low-income families. For example, about 5.1 million children under age 6 lived in poverty in 1984--an increase of almost 2 million since

1979--and nearly half lived in single-parent households headed by a woman. The families of these children can have difficulty obtaining high-quality child care without assistance, and because of their low incomes, few benefit from the tax credit. This option would also reduce work disincentives for some low-income parents.

On the other hand, these measures would require a partial reversal of some recent changes in federal support for dependent care. In creating the SSBG in 1981, the Congress removed the requirements of the predecessor program (Title XX) that benefits be targeted by income and that a specified amount of funding be spent on child care. Moreover, tightening the credit would adversely affect some families--including some with incomes below the median--by increasing their tax liabilities.

ENT-24 TERMINATE GENERAL REVENUE SHARING

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	4,550	4,550	4,600	4,600	4,600	22,900
Outlays	3,350	4,550	4,600	4,600	4,600	21,700

The General Revenue Sharing (GRS) program, established in 1972, provides more than $4 billion annually in unrestricted grants to all local governments--counties, municipalities, townships, and Indian tribes. State governments also participated until 1981, when their share was eliminated on the ground that their fiscal condition no longer warranted federal subsidies. Federal savings of $3.4 billion in 1987 and $21.7 billion over the 1987-1991 period would be realized by allowing the authorizing legislation for the GRS program to expire at the end of 1986.

Proponents of terminating the program argue that, under current economic circumstances, federal aid should be targeted toward programs with clear national policy objectives rather than toward programs such as GRS that place no restrictions on expenditures. They argue further that since GRS payments represent less than 2 percent of total revenues of local governments, the impact on local fiscal conditions would be small.

Advocates of maintaining the program would argue that, over the last decade, GRS has been figured into the budgets of its recipients. Because GRS makes up a substantial portion of revenues for some jurisdictions, ending that support could impose at least temporary stress on them, particularly in view of cutbacks in other federal assistance programs. Indeed, some argue that the "no strings attached" nature of GRS makes it a model for federal assistance and that categorical aid programs are the ones that should be pared.

In the 1986 budget resolution, the Congress assumed that the General Revenue Sharing program would be terminated at the end of fiscal year 1986. The Administration's budget also does not seek reauthorization for the program and proposes to rescind the last quarterly payment to be made with funds from fiscal year 1986.

AGRICULTURAL PRICE SUPPORTS

This category presents three options for reducing agricultural price-support expenditures. Each option would reduce crop deficiency payments, which are projected to total about $45 billion over fiscal years 1987-1991 and account for about 50 percent of total price-support outlays.

Deficiency payments support the incomes of feed grain, wheat, rice, and cotton producers when national average prices for a specified period fall below target prices. To be eligible for deficiency payments, a producer must voluntarily participate in acreage reduction programs and forgo production, and hence income. Because deficiency payments are made in proportion to production, they are concentrated among the nation's largest producers--in 1984 about two-thirds of payments went to 14 percent of the largest farms.

The three options are not mutually exclusive. AGR-01 would reduce deficiency payments by lowering target prices at a faster pace than required under current law. AGR-02 would eliminate deficiency payments on acreage in excess of that needed to meet projected utilization. AGR-03 would reduce income support to the largest farms by lowering the amount of payments that individual producers can receive.

AGR-01 REDUCE DEFICIENCY PAYMENTS BY LOWERING TARGET PRICES

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	500	2,040	2,940	2,790	2,350	10,620
Outlays	500	2,040	2,940	2,790	2,350	10,620

Target prices for grains are frozen at current levels for the 1986 and 1987 crops. The Secretary of Agriculture can reduce them by 2 percent in 1988, 3 percent in 1989, and 5 percent in 1990. (Cotton and rice target prices are frozen for 1986 and then will be reduced by 2 percent, 3 percent, 3 percent, and 2 percent over 1987-1990, respectively.) While target prices are frozen for 1986 and 1987, price supports will be reduced, which will increase the level of income support--the maximum level of support being the difference between the target price and the support price. This in turn will mean higher deficiency payments. An alternative would be to reduce target prices by 5 percent per year starting in 1987. Outlay savings would be $10.6 billion over the 1987-1991 period.

A more rapid rate of reduction in the level of income support would increase the pace at which farmers would respond to market prices rather than to government target prices. Such a reduction in the level of income support would be consistent with a market-oriented farm policy as envisaged under current law. Because of the concentration of deficiency payments among a relatively small number of larger-than-average crop farms, this alternative would not have much effect on most farmers' incomes.

Some farmers no doubt would be harmed more than others by a faster reduction in target prices. In 1984, about a fourth of government payments went to financially stressed farms with debt-to-asset ratios above 40 percent and negative cash flows. Further, this option would tend to weaken the effectiveness of acreage reduction programs by reducing the incentives to participate.

AGR-02 ELIMINATE DEFICIENCY PAYMENTS ON EXCESS ACREAGE

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1987	1988	1989	1990	1991	
Budget Authority	470	2,450	2,980	1,420	1,025	8,345
Outlays	470	2,450	2,980	1,420	1,025	8,345

Crop farmers receive deficiency payments if they agree to reduce the acreage planted to a program crop. Payments are based on the acreage planted to a program crop multiplied by a farm's program yield. According to CBO projections, crop acreage on which payments are made exceeds the acreage estimated to be necessary to produce for domestic use, exports, and stock requirements. If deficiency payments were limited to the acreage needed for projected use, savings would be $8.4 billion over the 1987-1991 period.

The current payment structure encourages production: farmers tend to produce in response to target prices and expected government payments. In conditions of surplus production, such incentives lead to lower prices and higher government outlays, since surplus production ultimately ends up under government loan or ownership. This option would directly result in budgetary savings by reducing total deficiency payments. Further, to the extent it caused any contraction in production, savings in lending and acquisition costs might result.

Since government payments would be reduced under this option, farmers as a group would be somewhat financially worse off as a result. Most participating farmers would not be affected much, however, given the relatively small importance of government payments to them. This option could also impair the effectiveness of acreage reduction.

AGR-03 REDUCE DEFICIENCY PAYMENTS BY LOWERING PAYMENT LIMITATION

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	0	2,030	2,160	1,930	1,515	7,635
Outlays	0	2,030	2,160	1,930	1,515	7,635

Since crop deficiency payments are in proportion to production, they benefit primarily large-scale commercial farmers. An alternative would be to place further limits on government payments to large farmers by reducing the annual amount of government payments an individual farmer may receive. One option would be to hold deficiency payments and diversion payments to $10,000 per farmer as compared with the current $50,000 limit. (The limitation does not apply to all payments.) If this was first applied to the 1987 crops, savings would be $7.6 billion over the 1988-1991 period.

Proponents point out that large crop farms generate much higher than average incomes so that these farms do not need as much income assistance. In 1984, about two-thirds of government payments went to farms that had average incomes of about $55,000 per household and average equity of about $600,000 each. This option would reduce income transfers to the largest farms, especially those producing cotton and rice. Many farms would not be affected much by a $10,000 limitation, since they would receive about the same income support as they do currently.

Some farmers would be worse off under a tighter payment limitation. This approach would not be very effective for targeting income support to farmers with the greatest need. Farm size is a poor way of determining economic need since there is great diversity among crop farmers' incomes. Further, a lower payment limitation would likely discourage some farmers from participating in acreage reduction programs, thereby reducing the effectiveness of supply management. Last, farms can be redefined so as to make more individuals eligible for payments, thus reducing outlay savings.

NONDEFENSE DISCRETIONARY SPENDING

Over the past several years, outlays for nondefense discretionary spending have been reduced substantially. Further small, incremental reductions are not likely to achieve significant savings, and may limit the effectiveness of programs to the point where they no longer can meet policy objectives. In light of the requirements of the Balanced Budget Act, the Congress may instead wish to consider a number of possible strategies that would either eliminate or significantly reduce selected programs. At the most basic level, the Congress can choose a sweeping, across-the-board strategy based on the notion that the government should stop providing many of the services contained in this part of the report. Or, it can develop a program-by-program approach, trying to effect budgetary savings in each individual area by consolidating services, targeting them more narrowly, or charging users for them, depending on the specific program in question.

NDD-01 through NDD-05 represent the across-the-board approach. These options call for sweeping changes in nondefense discretionary programs, including eliminating or severely reducing most federal aid to infrastructure, energy, business, construction, and foreign development.

The second approach--specific program cuts--is taken in the remaining options. NDD-06 through NDD-09 propose revenue gains by recovering costs from program users. The remaining options are organized largely by functions of the federal government. NDD-10 through NDD-16 cover infrastructure (including transportation); NDD-17 through NDD-20 relate to commercially oriented activities of the federal government; NDD-21 through NDD-31 include options related to community and human resources.

Many of the program reductions or deletions suggested by NDD-10 through NDD-31 are also proposed by the across-the-board cuts, the primary difference being the underlying philosophy that motivates the option. Reducing the share of mass transit costs covered by the federal government, for example, is suggested by NDD-14 on the grounds that the current high federal matching ratio provides little incentive for localities to propose the most cost-effective projects. It is also suggested, however, by NDD-01 as part of an overall option to remove the federal government from all infrastructure programs that provide primarily local benefits.

NDD-01 WITHDRAW MOST FEDERAL AID FOR PUBLIC WORKS INFRASTRUCTURE

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
			Eliminate Most Aid			
Budget Authority	23,000	26,000	28,000	29,000	30,500	136,500
Outlays	8,600	17,000	20,800	23,600	25,700	95,700
			Phase Out Aid			
Budget Authority	2,900	6,500	10,500	14,500	19,000	53,400
Outlays	1,100	3,300	6,900	10,700	14,900	36,900

The federal government spends more than $30 billion a year to help build, maintain, and operate the nation's public works infrastructure and related services. State and local governments spend an additional $60 billion each year. Only about one-fourth of federal funds are used for operations and maintenance, whereas state and local governments devote two-thirds of their public works spending to those purposes.

By now most of the infrastructure the nation requires is already in place, as a result in large part of federal efforts. [1] The overriding national goal today is to maintain, not build, these systems. What need there is for added capacity is concentrated largely in fast-growing localities. One option, therefore, would be to limit federal aid to meeting those needs that are entirely national in purpose: basic research, safety, and a few other areas with primarily cross-jurisdictional economic effects, such as the Interstate Highway System. The remaining areas of spending would either be eliminated immediately or phased out over the coming few years. The major rationale for such a reduced federal involvement in infrastructure spending is that the benefits of most infrastructure projects go primarily to localities. Further, some federal programs encourage inefficiency in public investment.

1. See CBO, *Public Works Infrastructure* (April 1983) and *The Federal Budget for Infrastructure* (July 1985).

By the end of the decade, 95 percent of the infrastructure spending now done by the federal government could be shifted to nonfederal governments or the private sector, or could be financed through increased federal user fees. Outlay savings would total $8.6 billion in 1987, reaching $25.7 billion by 1990, and approaching $100 billion throughout the 1987-1991 span. Budget authority savings would be substantially greater for 1987 and 1988 because of the normal delays between the authorization to sign a contract and payment once work has been completed.

Though the details of such a proposal could vary, one set of changes would involve 10 federal programs in the following ways:

Highways. Limit federal aid to repairs on the Interstate Highway System and to certain research and safety programs. Nonfederal financing could be encouraged by permitting tolls on existing federal-aid roads (see also NDD-15). [2]

Transit. Eliminate all grants except those going toward safety and a limited research program (see also NDD-14).

Aviation and Aerospace. Eliminate grants to airports and turn the air traffic control system over to an independent public corporation. Trim NASA's research program to basic research and areas with long-range potential (see also NDD-08).

Wastewater Treatment. Phase out the EPA grant program by eliminating all new projects (see also NDD-16).

Rail. Eliminate aid to Amtrak and limit the federal role in railroads to safety (see also NDD-13). Sell Conrail if bids can be raised to higher levels than those already submitted.

Army Corps of Engineers. Eliminate all construction programs and impose full user fees for maintenance work. Limit Corps activities to maintenance work while local and/or private groups take over other responsibilities (see also NDD-11 and NDD-12). (Exceptions could be made if user fees were extended and increased to recover full Corps costs.)

Bureau of Reclamation. Eliminate all new construction and impose full user fees as contracts expire.

2. See CBO, *Toll Financing of U.S. Highways* (December 1985).

Water Supply. Eliminate all aid.

Coast Guard. Eliminate all aid except the Coast Guard's drug and territorial enforcement activities, and research and safety projects. Continue Coast Guard search and rescue and aids to navigation only if they could be financed completely from user fees (see NDD-09).

Maritime Administration. Eliminate cargo preference rules and other subsidies except for existing long-term contracts for maritime operating subsidies (see NDD-10).

The disruptions caused by such drastic changes would vary considerably, with limited long-run problems for those areas that have the potential to be financed through user fees--highways, airports, air traffic control, ports and harbors, locks and dams, and most water resource projects. [3] Though higher--and in some cases, altogether new--fees would be required, one result would be a strong impetus to select more cost-effective projects and to operate them more efficiently than under the current system of federal subsidization. The most serious negative effects would be focused on activities that cannot be completely self-supporting: most mass transit, Amtrak outside the Northeast Corridor, and projects in depressed areas. These would require either massive restructuring or increased local taxes. Without federal control, there would be fewer safeguards against actions in one locality jeopardizing those in others.

Adversities could be eased somewhat by gradual rather than quick action. A phaseout could be implemented by systematically reducing the federal matching share for those programs in which costs are shared with nonfederal governments, and by graduating downward new budget authority for other programs. For example, if the current 80 percent federal share of transit capital grants were reduced by 10 percent a year, the program would be eliminated in eight years. Such a phase-down would allow state and local governments some time to develop alternative means of finance. Between 1987 and 1991, federal budgetary savings would be about 40 percent of those produced by immediate elimination, or $37 billion.

The magnitude of the savings assumes that existing federal user fees (the nine-cent-per-gallon tax on motor fuel, for example, and the 8 percent airline ticket tax) would be continued, with receipts paid into the general

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3. See CBO, *Charging for Federal Services* (December 1983) and *Financing U.S. Airports in the 1980s* (April 1984).